BELFAST HARBOUR COMMISSIONERS' PENSION SCHEME

STATEMENT OF INVESTMENT PRINCIPLES – DEFINED BENEFIT SECTION

1. INTRODUCTION

Belfast Harbour Pension Fund Limited the Trustee of the Belfast Harbour Commissioners' Pension Scheme (the "Scheme") has drawn up this Statement of Investment Principles for the Defined Benefit Section of the Scheme ("the Statement") to comply with the following legislation:

- Pensions (Northern Ireland) Order 1995 ("the Act"), as amended.
- The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015; and
- Subsequent legislation.

As required under the Act, the Trustee has consulted a suitably qualified person in obtaining written advice from Mercer Limited. The Trustee in preparing this Statement has also consulted the sponsoring Employer, Belfast Harbour Commissioners (the "Commissioners"), in particular on the Trustee's Investment objectives.

The investment strategy of the Scheme falls into two parts:

(1) Strategic management

The strategic management of the assets is the responsibility of the Trustee acting on expert advice and is driven by its investment objectives as set out in section 2.

(2) Day-to-day management

The remaining elements of policy are part of the day-to-day management of the assets which is delegated to professional investment managers and described in section 3.

2. INVESTMENT OBJECTIVES AND RISK

2.1 Investment Objectives

To guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustee has considered its investment objectives and adopted the following key objectives:

(1) To avoid volatility in the contribution rate and the Commissioners' pension costs;

(2) to achieve, over the long-term, a return on the investments which is consistent with the long-term assumptions made by the Scheme Actuary in determining the funding of the Scheme;

(3) to endeavour that the assets would be sufficient to meet the liabilities as determined in the event of the Scheme winding up on the basis of full buy-out costs;

(4) to avoid the need for additional contributions arising from the Statutory Funding Objective;

(5) to achieve a favourable return on assets invested without incurring undue risk.

2.2 Risk Management Methodology

The objectives set out above and the risks and other factors referenced below are those that the Trustee determines to be financially material considerations in relation to the DB Section of the Plan.

There are various risks to which any pension scheme is exposed; the Trustee's policy on the main factors relevant to the Scheme over its anticipated lifetime, and the risk management of them is set out below. The Trustee reviews these risks at least on a triennial basis, and, in conjunction with their advisers, agrees a suitable "risk budget" relative to their liabilities to manage these risks (see 2.3). This is then implemented with their investment managers, as set out in section 3. At the last review, the Trustee considered the following risks:

(1) The risk of a shortfall of assets relative to liabilities as determined on an ongoing basis.

(2) The risk of a shortfall of assets relative to the liabilities as determined if the Scheme was wound up.

(3) The risk that the assets of the Scheme may be less than the liabilities as determined by the Statutory Funding Objective.

(4) The risk that the day to day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active Investment Managers involves such a risk. However, the Trustee believes that this risk is outweighed by the potential gains from successful active management.

2.3 Investment Strategy

The Trustee has agreed a "risk budget" – defined by targeting a 1-year funding level Value at Risk ("VaR") of £2.3m – which will be implemented using a "liability driven investment" approach and retention of sufficient growth assets to meet the return assumptions on the funding basis. This investment strategy has been adopted in consultation with the Scheme's actuary, and the Trustee believes that this investment strategy is appropriate for controlling the risks identified in 2.2 above.

3. DAY TO DAY MANAGEMENT OF THE ASSETS

3.1 Main Assets

Following the results of the 2020 Actuarial Valuation and the Scheme's strong funding position, the Trustees agreed to de-risk the portfolio in September 2021 with implementation taking place in December 2021. The level of return expected from the strategic allocation to growth assets, and the associated volatility, was no longer required, and as such, in line with the results of the Actuarial Valuation, the Trustees agreed to reduce the strategic allocation to equity and increase the allocation to Liability Driven Investment ("LDI") in order to increase the overall hedge ratio of the Scheme. The main assets of the Scheme are managed by Legal & General Investment Management ("L&G") and M&G Investments ("M&G"). The target deployment of Scheme assets over the Managers is shown below as percentages of total Scheme value.

	L&G	**M&G**	**TOTAL (Investment Strategy)**
	%	**%**	**%**
Global Equities	10.0	-	10.0
Absolute Return Fixed Income		20.0	20.0
Liability Hedging Portfolio*	70.0	-	70.0
Total	**80.0**	**20.0**	**100.0**

* Includes corporate bond and cash holdings, see below for more detail.

Legal & General Investment Management (L&G)

Scheme funds managed by L&G are held in collective investment schemes in each class of asset. Management of this proportion of Scheme assets is governed by a management agreement between the Trustee and L&G.

Legal & General Liability Hedging Portfolio

Asset Class	Initial Target Allocation (%)	Index
Long Dated Corporate Bonds	18.8	iBoxx Sterling Over 10 year non-gilt index
Corporates Bonds	11.7	iBoxx Sterling Non-Gilt Index
Liability Hedging Funds	68.2	Bespoke Benchmark
Cash	1.4	SONIA (Sterling Overnight Index Average)

Note: Total may not add due to rounding. Initial target allocation as at January 2022.

The Liability Hedging portfolio was increased following de-risking in December 2022 with further refinement taking place in January 2022. There is no rebalancing between any of the funds within the portfolio, so individual fund allocations will drift over time with market movements.

The Trustee is targeting a hedge ratio of c90% on a gilts flat basis (both real and nominal hedge ratios).

Legal & General Equity Portfolio

Asset Class	Benchmark (%)	Index
Equity	100	FTSE All-World Index – GBP Currency Hedged

L&G's performance target for the equity allocation is set out in Appendix A.

M&G

Scheme funds managed by M&G are invested in a pooled fund investing in different forms of credit including investment grade, high yield, asset backed and loan strategies, and are governed by a management agreement between the Trustee and M&G.

Asset Class	Benchmark (%)	Index
Absolute Return Fixed Income	100	UK 1-month LIBOR

M&G's performance target is set out in Appendix A.

3.2 Investment Restrictions

The Trustee has agreed certain general restrictions on investment which are applied as appropriate to the portfolios managed by each Investment Manager.

Unless the prior written consent of the Trustee is obtained, the portfolios shall only include investments (other than investments in collective schemes and currency deposits) which are traded on or under the rules of a recognised or designated investment exchange.

Prohibited Investments -

Direct investment is not permitted in:

- Derivatives
- Securities which are not readily realisable
- Property either directly or in unit trusts

Maximum Holdings

With the exception of Government securities, not more than 5% of the value of each portfolio shall be invested in a single investment. (The Trustee has relaxed this restriction in respect of the Collective Investment Schemes operated by the Investment

Managers). Not more than 5% of the value of each portfolio shall be placed or deposited with a single financial institution other than the Custodians (see 3.7 below).

Borrowing

Supplementing funds by borrowing or committing to a contract which may require supplementary funds is not permitted other than to acquire partly paid securities, subject to the limitation that the amount unpaid will not exceed 2.5% of the value of each portfolio.

Forward Foreign Exchange Contracts

Forward foreign exchange contracts are not permitted without the prior written consent of the Trustee but the Trustee is content to permit the Scheme to participate in units of a fund which itself holds forward foreign exchange contracts.

The Trustee is satisfied that the permitted deployment of assets and the Investment Managers' policy on investing within each asset type provides adequate diversification of assets.

3.3 Investment Performance Monitoring

The performance of the managers is independently monitored against relevant indices.

The Trustee meets the Investment Managers as required to review their performance. Mercer is retained as Investment Consultant to assist the Trustee in fulfilling its responsibility for monitoring the Investment Managers.

The Trustee carries out a formal review of Investment Manager performance every three years. This review is in addition to the normal and ongoing evaluation of investment performance.

3.4 Expected Return on the Investments

The return expected on the Scheme's investments is as defined by the investment performance objective set out in Appendix A, weighted in accordance with the proportions held by each manager.

3.5 Additional Assets

Assets in respect of members' additional voluntary contributions (AVCs) historically have been held by an Assurance Company and the benefits payable are wholly insured. In addition, members are able to pay additional contributions into the DC section of the Scheme. The Trustee Directors review these arrangements as appropriate to ensure they remain appropriate for the Scheme's members.

3.6 Cashflow Management and Realisation of Investments

A cashflow policy will be agreed by the Trustee on a quarterly basis taking into account the need for regular cashflow and the current position of each of the mandates within the portfolio.

3.7 Custody of Investments

The Scheme invests in pooled funds the assets of which are held by professional Custodians, as appointed by the investment managers. The Custodians are responsible for the safe custody of the pooled fund assets.

4. SOCIALLY RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

4.1 ESG, Stewardship, and Climate Change

The Trustee believes that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee has taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustee has given the Investment Managers full discretion when evaluating ESG factors, including climate change considerations and in exercising rights and stewardship obligations attached to the Scheme's investments, including undertaking engagement activities, in accordance with its own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. Where applicable the Trustee expect the Scheme's investment managers to exercise all voting rights attaching to shares or securities and take account of current best practice. The managers are authorised to exercise discretion to vote as they think, but in doing so reflect the best interests of the Scheme

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. This is done using ESG ratings on funds provided by the Scheme's investment consultant. These ratings represent the extent to which managers integrate ESG factors and active ownership into their core processes. The ESG ratings for the existing investment managers are provided on a quarterly basis.

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

Members' views are not taken into account in the selection, retention and realisation of Investments.

4.2 Engagement with the Investment Managers

The policy in relation to the Trustee's arrangements with their investment managers are set out below.

A *Incentivising the asset manager to align its investment strategy and decisions with the Trustee policies:*

In line with section 3 of the SIP, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustee looks to the investment consultant for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective of a particular fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Some appointments are actively managed and the managers are incentivised through remuneration and performance targets (an appointment will be reviewed following period of sustained underperformance or significant outperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) on an ad-hoc basis.

As the Trustee invests the bulk of the Scheme's assets in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

B *Incentivising the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of a holding company, and to engage with holding companies in order to improve their performance in the medium to long-term:*

The Trustee will consider the investment consultant's assessment of how the investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policy on voting and engagement.

The Trustee meets with the investment manager at Trustee meetings as required and may challenge decisions made including voting history (in respect of equities) and engagement activity.

The Trustee delegates all voting and engagement activities to the investment manager. When required the Trustee will question managers' voting decisions if they deem them out of line with the investment fund's objectives or the objectives / policies of the Scheme.

The Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.

C *Aligning the evaluation of the asset manager's performance and the remuneration for asset management services with the Trustee's policies:*

The Trustee receives investment manager performance reports on a quarterly basis, which presents performance information over 3 months, 1 year, 3 year and since inception periods. The Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated tracking error (over the relevant time period). The Trustees focus is on long term performance but will put the manager 'on watch' if there are short term performance concerns.

If the manager is not meeting their investment objectives for the mandate have changed, the Trustee may review the mandate including the annual management charge levied by the manager. The Trustees may also review the mandate should the manager breach any investment guidelines.

D *Monitoring portfolio turnover costs incurred by the asset manager:*

The Trustee receives MiFID II reporting from their investment manager but do not analyse the information.

The Trustee does not currently monitor portfolio turnover costs but may look to do so in the future.

E *The duration of the arrangement with the asset manager:*

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis.

The funds invested in are open-ended funds and therefore there is no set duration for the manager appointments. The Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the trustee has decided to terminate.

5. COMPLIANCE WITH THIS STATEMENT

The Trustee will monitor compliance with this Statement annually. In addition, the Trustee undertakes to advise the Investment Managers promptly and in writing of any material change to this Statement.

6. REVIEW OF THIS STATEMENT

The Trustee will review this statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of both the Trustee and the sponsoring Employer, which it judges to have a bearing on the stated investment policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation of the Scheme. Any such review will be based on written, expert investment advice and will be prepared in consultation with the sponsoring Employer.

For and on behalf of the Belfast Harbour Pension Fund Limited
Trustee of the Belfast Harbour Commissioners Pension Scheme

Effective Date: March 2022

Appendix A: Fund Information

Annual Investment Manager Fee Scales

Legal & General Investment Management

Active Corporate Bond All Stocks Fund
Active Corporate Bond Over 10 Year Fund
0.20% on assets per annum

Index-Linked Bond Fund
0.15% on assets per annum

Leveraged Index-Linked Gilt funds
0.24% on the first £25 million per annum
0.17% on the balance above £25 million per annum
The fee rate applicable is calculated using the aggregated value of each client's holdings across the Leveraged Fund range.

Index-Linked Gilt funds
0.10% on the first £5 million per annum
0.075% on the next £5 million per annum
0.050% on the next £20 million per annum
0.030% on the balance above £30 million per annum

Cash fund
0.125% on the first £5 million per annum
0.10% on the next £5 million per annum

All World Equity Index Fund – GBP Currency Hedged
0.223% per annum of the first £5 million, plus
0.198% per annum of the next £10 million, plus
0.173% per annum of the next £35 million, plus
0.148% per annum of the balance above £50 million;

M&G Investments Absolute Return Fixed Income

0.35% on assets per annum

Predicted Tracking Errors

Legal & General Corporate Bond Fund/Over 10 year fund	0% p.a. - 1.5% p.a.
Legal & General Index-Linked Bond Fund	0% p.a. - 1.5% p.a.
Legal & General Cash Fund	No specific target
Legal & General All World Equity Index Fund	FTSE All World +/- 0.5% p.a.
M&G Alpha Opportunities Fund	Absolute volatility of 3% p.a. - 5% p.a.

Investment Performance Objective

The performance objectives set for the Investment Managers are:

Legal & General (Liability Hedging)	To achieve a liability hedge ratio of c90% on a gilts flat basis (both real and nominal hedge ratios).
Legal & General (Equity)	To track the performance of FTSE All World Index – GBP Hedged within +/- 0.5% per annum for two out of three years.
M&G	To deliver an absolute return of one-month LIBOR plus 3-5% p.a. (gross of fees)